

## NCUA holds 5th Annual Budget Briefing and Public Forum

NCUA held its fifth Annual Budget Briefing and Public Forum in Alexandria October 19, 2005, unveiling the agency's projected 2006 budget and hearing comments from the public.

Executive Director J. Leonard Skiles presented staff budget submissions that will, if adopted by the NCUA Board as presented, represent a modest 1.9 percent increase over the 2005 approved budget, versus inflation of 4.7 percent. The projected agency budget for 2006 totals \$151 million. It includes an average 3.1 percent merit salary increase potential for employees and would decrease the staffing level by 3 to 958 full-time equivalent positions.

"Once again, this proposed budget represents the continued wise use of the agency's resources," said NCUA Chairman JoAnn Johnson. "This proposal reflects our strong commitment to

maintaining a fiscally responsible budget for achieving the NCUA's mission, while also making certain that America's credit union system has the regulatory resources necessary in ensuring safety and soundness. I am pleased with the diligence of the NCUA staff and value the steadfast work of the agency's leadership in preparing this budget for Board consideration. Likewise, I value the significant input from the stakeholders, who have a vested interest in the agency."

Significant expenses in 2006 relate to conducting regional conferences for examiners, implementing new computer technology throughout the agency and providing resources for the Bank Secrecy Act and Home Mortgage Disclosure Act.

The agency heard oral comments from representatives of three major credit union trade associations who provided their views on agency expenses and

priorities for 2006. The NCUA Board will consider both the oral comments as well as submitted written comments and vote on a final 2006 agency budget at its November Board meeting.

The budget briefing PowerPoint presentation is available online at <http://www.ncua.gov/ReportsAndPlans/special/budget/index.html>.

### November NCUA Board meeting rescheduled

The November NCUA Board meeting has been rescheduled to Tuesday, November 29, 2005, to accommodate the two new nominees to the Board.

## Senate holds confirmation hearing



**October 25, 2005, Capitol Hill** — Gigi Hyland and Rodney Hood attend their NCUA Board confirmation hearing before the Senate Banking Committee. President Bush nominated Rodney Hood to the NCUA Board May 9, 2005, and the President nominated Gigi Hyland September 30, 2005. Senate confirmation is expected soon.

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# NCUA focuses on safe, sound mortgage lending

As American consumers become attracted to a variety of non-traditional mortgage lending products, credit unions must remain vigilant in maintaining safe, sound mortgage lending portfolios. Chairman JoAnn Johnson told the American Credit Union Mortgage Association October 10, 2005, in Las Vegas, Nevada.

Recent trends indicate a shift in consumer demand towards more exotic adjustable rate or interest only mortgages, particularly in real estate markets that have experienced unprecedented appreciation in housing prices. In response, borrowers have resorted to new loan options and relaxed lender credit standards to be able to qualify for home financing, a trend recognized across all mortgage lenders.

"We want credit unions to be at the forefront helping members achieve the American Dream of homeownership and at the same time realize that as a financial partner empowering homeownership,

credit unions should do so safely and soundly," said Chairman Johnson. "Thanks, in part to America's credit unions, minority homeownership is at an all time high."

Credit unions hold \$204 billion in real estate loans. Fixed rate first mortgage loans account for two-thirds of all credit union first mortgages, with the remaining one-third being adjustable rate.

"A recent Wall Street Journal article highlighted the fact that in the second quarter of 2004, 'adjustable-rate and interest only loans accounted for 63 percent of mortgage originations and in recent months option adjustable rate mortgages and interest only loans accounted for 65 percent - 75 percent of all jumbo-mortgage originations,'" quoted Chairman Johnson. "In the first two months of 2005, nearly 61 percent of California purchase mortgages were interest only, up from 47 percent in 2004 and less than 2 percent in 2002."

NCUA recently issued Letter Credit Unions CU-05-15, <http://www.ncua.gov/letters/letters.html>, regarding increasing risks in mortgage lending. NCUA field staff will be monitoring these trends and will evaluate not only interest rate risk related to mortgage lending but the increased credit risk associated with these newer mortgage products and more liberal underwriting standards.

Credit unions should be familiar with these newer mortgage loan products and the increased level of credit risk associated with them, especially in markets with high levels of appreciation in housing prices. Many lenders offer these products ahead of standard fixed rate mortgages as a way for borrowers to increase their purchasing power. The need to use these types of products to simply qualify for a loan may increase credit risk, especially as interest rates (and minimum payments) increase, and if the rate of home price appreciation flattens or declines.

## Risks heighten in mortgage lending

The mortgage lending market has changed to accommodate consumers' desires for non-traditional financing. Non-traditional mortgage products include adjustable-rate mortgages with multiple payment options, interest-only mortgages and mortgages with negative amortization.

Non-traditional mortgage products have different risks than traditional mortgage loans, both to members and credit unions. Sound business practices indicate credit unions involved in non-traditional mortgage products should:

- Ensure mortgage underwriting criteria are appropriate;
- Ensure fit with the overall business plan;
- Evaluate the risks;
- Determine if any risk needs to be mitigated; and
- Implement appropriate policies, procedures and monitoring mechanisms to manage the risks.

Found online at <http://www.ncua.gov/letters/letters.html>, NCUA Letter to Credit Unions 05-CU-15 provides additional details

## Financial Performance Report revised

The NCUA has enhanced the Financial Performance Report beginning with the September 30, 2005, Call Report cycle. An updated user's guide explaining how to obtain and use the data contained in the FPR is available online at <http://www.ncua.gov/news/express/xfiles/NCUA8008.pdf>.

## NCUA News

### National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**JoAnn Johnson, Chairman**

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## NCUA Board Meeting Results

### Fidelity bond and insurance coverage rule finalized

The NCUA Board issued a final rule change amending Part 713, the rule that governs fidelity bond coverage for federal credit unions to:

- Increase minimum required coverage for fidelity bonds;
- Increase the permissible deductible amount for credit unions with assets over \$200 million that qualify under the Regulatory Flexibility Program; and
- Remove the listing of approved bond forms and carriers from the rule and, instead, indicate this information is available and will be updated on the NCUA website.

The Board also adopted a related technical correction to §741.201(b).

### NCUSIF quarterly report

The National Credit Union Share Insurance Fund (NCUSIF) ended the third

quarter of 2005 with \$77.5 million in provision for loan loss reserves. An additional \$9.1 million was added in September primarily due to an increase in general reserves as the result of the semi-annual review.

Through September, NCUSIF gross income was \$122.6 million, operating expense was \$61.1 million, insurance loss expense totaled \$18.0 million and net income was \$43.6 million. Net income is projected to reach \$60 million by year end.

Based on June 30, 2005, insured shares of \$513.5 billion, NCUSIF equity increased to 1.28 percent in September due to an increase in contributed capital. The NCUSIF equity ratio is projected to be 1.27 percent at year-end 2005. This is based on insurance loss expense of approximately \$20 - \$24 million in 2005 and share insurance growth of approximately 4 percent. While losses from Hurricane Katrina appear to be less than expected,

any attributed losses will occur in 2006 rather than 2005.

Through September 30, 11 credit unions had failed in 2005 – 7 were involuntary liquidations and 4 were assisted mergers. There were 275 problem code credit unions at the end of September. These institutions represent 1.20 percent of total insured shares.

**Board votes are unanimous unless indicated.**

## Guidance updated for authenticating electronic identity

NCUA will soon issue a letter to credit unions concerning the Federal Financial Institutions Examination Council's (FFIEC) recently updated guidance on risks and risk management controls necessary to authenticate the identity of customers accessing electronic financial services. The continued growth of Internet banking and other forms of electronic banking activities, along with the increased sophistication of threats to these systems, result in increased risks for financial institutions and their customers. Effective authentication can reduce fraud and theft of sensitive customer information, often the precursor to identity theft.

With a compliance deadline of December 2006, *Authentication in an Internet Banking Environment* guidance provides financial institutions with information on risk assessments, customer authentication, verification of new customers, monitoring and reporting. An appendix details various authentication technologies. The updated guidance replaces FFIEC's *Authentication in an Electronic Banking Environment*, issued in 2001.

The guidance is available at [http://www.ffiec.gov/pdf/authentication\\_guidance.pdf](http://www.ffiec.gov/pdf/authentication_guidance.pdf).

## Additional regulatory and reporting guidance issued for recovery

The Federal Financial Institutions Examination Council (FFIEC) member agencies made additional supervisory guidance available on regulatory and reporting issues related to Hurricane Katrina and Hurricane Rita. This information, in the form of questions and answers, provides guidance on:

- [The agencies' expectations for regulatory reports](#), including Bank Reports of Condition and Income (Call Reports), Bank Holding Company Reports, Thrift Financial Reports, Thrift Holding Company Reports, and Credit Union 5300 and 5310 Call Reports, for the quarter ending September 30, 2005;

- [Appropriate allowances for loan and lease losses](#) in third quarter regulatory reports;
- [Accounting treatment of sales of held-to-maturity securities](#) to meet increased liquidity needs directly related to the hurricanes; and,
- [Temporary hardship programs](#) for credit card customers and related delinquency and credit bureau reporting issues.

The updated *FFIEC Guidance for Financial Institutions in Response to Hurricanes Katrina and Rita* is available online at [http://www.ffiec.gov/press/pr100605\\_hurricane.htm](http://www.ffiec.gov/press/pr100605_hurricane.htm).



# SBA simplifies loan documentation requirements

Responding to issues faced by business owners who lost important documents in the aftermath of Hurricanes Katrina and Rita, the Small Business Administration (SBA) is relaxing some of its disaster loan filing requirements to expedite loan processing.

The SBA is waiving its three year tax return submission requirement, and business owners will be able to file a disaster loan application without providing the last three year's monthly sales analysis.

Also, the floor has been increased from \$25,000 to \$50,000 for title or records required before loan disbursements.

The SBA offers the following loans:

- Up to \$200,000 to repair disaster damaged primary residences.
- Up to \$40,000 for homeowners and renters to replace personal property such as furniture and clothing.
- Up to \$1.5 million for businesses and non-profit organizations to repair damaged real estate,

machinery, equipment and inventory.

- Up to \$1.5 million Economic Injury Disaster Loans (EIDLs) are available for small businesses unable to pay bills or meet operating expenses.

Interest rates can be as low as 2.68 percent for homeowners and renters and 4 percent for businesses, with terms up to 30 years. Loan amounts and terms are set by SBA and are based upon each applicant's financial condition.

Help with a disaster loan application is available at Small Business Development Centers. Addresses for the DRCs and the SBDCs can be found at the Web site ([www.sba.gov](http://www.sba.gov)).

In response to the devastation caused by Hurricanes Katrina and Rita, the SBA has hired more than 2,300 loan officers, damage inspectors, loan closers and customer service staffers. SBA employees are working 12 to 14 hours seven days a week in 103 Disaster Recovery Centers

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# Appraisal waiver granted for Gulf Coast states

In coordination with fellow federal financial institution regulators, NCUA has waived appraisal requirements for three years for federally insured credit unions affected by Hurricanes Katrina and Rita.

The waiver covers real estate transactions in Alabama, Mississippi, and Texas counties and Louisiana parishes designated by the Federal Emergency Management Agency (FEMA) as qualifying for "Individual and Public Assistance (all categories)" and "Individual and Public Assistance (Categories A and B)" as a result of Hurricanes Katrina and Rita. A listing of the designated disaster areas is in the appendix of the Federal Register notice online at <http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/pdf/05-20583.pdf>.

Exceptions for the major disaster declared due to Hurricane Katrina will expire on August 29, 2008, in Alabama, Mississippi, and Louisiana, and for Hurricane Rita on September 24, 2008, in Louisiana and Texas.

To qualify for the waiver, a financial institution needs to document that: (1) the transaction involves real property located in the designated disaster areas; (2) the property involved was directly affected by the major disaster or the transaction would facilitate recovery from the disaster(s); (3) there is a binding commitment to fund the transaction that is made within three years after the date the major disaster was declared; and (4) the value of the real property supports the institution's decision to enter into the transaction.

This waiver is being issued pursuant to the authority granted to the NCUA and fellow regulators under the Depository Institutions Disaster Relief Act (DIDRA) of 1992. The act allows for the appraisal requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the

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**October 4, 2005, Alexandria, Va.** — On behalf of NCUA, Chairman JoAnn Johnson signs a Statement of Support for the Guard and Reserve recognizing that volunteer forces are essential to the strength and well being of our nation. The Department of Defense National Committee for Employer Support of the Guard and Reserve presented NCUA with a plaque commemorating NCUA's role as a federal agency that supports its employee Guard and Reserve volunteers.



## November

**Who and What:** Chairman JoAnn Johnson will address the Association of Corporate Credit Unions.

**When:** Wednesday, November 2, 2005

**Where:** Palm Springs, Calif.

**Why:** To discuss issues affecting corporate credit unions.

**Contact:** Linda Queen at 703-518-6309 or [lqueen@ncua.gov](mailto:lqueen@ncua.gov).

**Who and What:** Chairman JoAnn Johnson will address the Credit Union Executive Society (CUES) Council.

**When:** Wednesday, November 16, 2005

**Where:** Philadelphia, Penn.

**Why:** To discuss NCUA's regulatory agenda.

**Contact:** Linda Queen at 703-518-6309 or [lqueen@ncua.gov](mailto:lqueen@ncua.gov).

## December

**Who and What:** Chairman JoAnn Johnson will address the CUES Directors Conference.

**When:** Friday, December 9, 2005

**Where:** Las Vegas, Nev.

**Why:** To discuss regulatory issues affecting the nation's credit unions.

**Contact:** Linda Queen at 703-518-6309 or [lqueen@ncua.gov](mailto:lqueen@ncua.gov).

## Appraisal waiver granted

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agencies' appraisal regulations to be waived for up to 36 months when the President of the United States determines that a major disaster exists and the agencies determine that such waiver would both facilitate recovery in the disaster area and be consistent with safety and soundness.

## Education vital to help members reduce drug costs

Beginning November 15, everyone with Medicare can choose a Medicare prescription drug plan that would provide many credit union members with much needed assistance in paying for prescription drugs. Credit unions broad outreach can play a major role in helping members understand the significance of the new prescription drug benefit. Plans are different, so people now need to compare available plans to pick one that meets their needs.

Medicare's new coverage can provide real savings for brand name and generic prescription drugs for every person with Medicare starting January 1, 2006. A typical person with Medicare without drug coverage could see total drug spending drop by about 50 percent. And for people with limited income and resources, there is extra help available to pay for the new drug coverage.

### Financial assistance available

Limited income households that have not received an application for extra help from Social Security can request one by calling 1-800-772-1213 or apply for extra help online at [www.socialsecurity.gov](http://www.socialsecurity.gov).

Even for people ineligible for extra help, a Medicare prescription drug plan can still help save money on drug costs and can provide peace of mind by insuring against higher drug costs in the future.

### More information

Visit [www.medicare.gov](http://www.medicare.gov) for a plethora of information and tools available to both assist beneficiaries and assist local partners that wish to serve as a resource informing and educating people about the new prescription drug coverage. Assistance is also available by phone at 1-800-MEDICARE (1-800-633-4227). Free personal counseling is available for members through their State Health Insurance Assistance Program. In addition, Access to Benefits Coalition (ABC), at [www.accesstobenefits.org](http://www.accesstobenefits.org), plans to ensure everyone who qualifies takes advantage of available payment assistance.

## NCUA 2006 Board meeting schedule

The NCUA Board is scheduled to meet at 10 a.m. in open session in the headquarters Filene Board Room, 1775 Duke Street, Alexandria, Va., on the following dates in 2006:

- January 19
- February 16
- March 16
- April 20
- May 25
- June 15
- July 20
- No August Meeting
- September 21
- October 19
- November 16
- December 14

The public is invited to attend open meetings to witness the NCUA Board consider relevant regulation changes ensuring the federal credit union system remains safe and sound.

Board meeting dates are subject to change.

## SBA simplifies requirements

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located in the Gulf States, and in the agency's loan processing center, customer service center, and disaster field offices in Atlanta and Sacramento.

In addition, loan closing centers in Louisiana, Alabama and Mississippi will expedite loan closings and disbursements.

Homeowners, renters and businesses in the affected areas are encouraged to apply for federal assistance by registering online with FEMA at [www.fema.gov](http://www.fema.gov), or by calling 1-800-621-FEMA (3362), or 1-800-462-7585 (TTY) for the hearing and speech impaired. Toll-free numbers currently operate 24 hours a day.

For more information, call the SBA's customer service center at 1-800-659-2955 daily from 6 a.m. to 1 a.m. Email questions to [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov), or visit the Web site at [www.sba.gov/disaster](http://www.sba.gov/disaster).



# Project Restore HOPE volunteers needed

Chairman JoAnn Johnson joined other government officials at a press conference October 4 announcing an unprecedented initiative focusing on economic triage and empowerment for those affected and displaced by Hurricane Katrina.

Project Restore HOPE, led by Operation Hope, Inc. Founder and Chairman John Bryant, will focus on volunteer emergency preparedness as well as response and guidance to individuals and small businesses affected by the recent hurricane disasters.

Along with NCUA, White House officials, the Department of Treasury, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS) attended the press conference held at the Federal Emergency Management Agency (FEMA).

"NCUA is extremely pleased to partner with FEMA and Operation Hope on this initiative to assist those displaced by Hurricane Katrina," said Chairman Johnson. "The credit union community has responded with great compassion. I encourage that spirit to continue through this effort to provide financial counseling and support for those who are in great need of economic empowerment."

More than 2 million victims of Hurricane Katrina have registered with FEMA for assistance.

- In coming weeks and months, many of these individuals will require help beyond what FEMA provides through immediate emergency cash payments; including emergency economic counseling, emergency budget counseling, and economic triage counseling provided through Hope Coalition America (HCA) and its partners.
- HCA will use general HOPE Corps volunteers for outreach and client intake. And, HCA will

use professional HOPE Corps volunteers from credit unions, banking, financial services, insurance, accounting, legal and anyone with a financial services background to provide victims with compassionate counseling.

- HCA needs more volunteers now; approximately 5,000 on the ground in the disaster states in FEMA Disaster Recovery Centers, and in Call Centers at First American Corporation in Poway, Calif., and Dallas, Texas.

Project Restore HOPE will include components such as call center volunteers, FEMA Disaster Recovery Center/Hope Coalition America field of-

fice volunteers, street team volunteers, and virtual help-center volunteers.

Before asking for credit union volunteers, Chairman JoAnn Johnson encouraged NCUA staff to volunteer in this initiative.

For information about volunteer opportunities with Project Restore Hope, visit [www.operationhope.org](http://www.operationhope.org). For those affected by Hurricane Katrina seeking assistance in rebuilding their financial lives by obtaining lost or destroyed personal identification and financial documents, or financial counseling, call 888-388-HOPE (4673).



**October 4, 2005, Washington, D.C.** — Chairman JoAnn Johnson addresses media gathered at the FEMA press conference announcing Project Restore Hope, the Operation Hope initiative designed to assist hurricane victims. In the background are Operation Hope Founder and Chairman John Bryant and Deputy Assistant to President Bush and Director of USA Freedom Corps Desiree Sayle.

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